



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

August 4, 2015

CURRENT PRICE: \$15.60

RATING: BUY

PRICE TARGET: \$15.90

CURRENT YIELD: 2.8%

EPS Estimates - Non-GAAP

| | DEC 14A | DEC 15E |
|----|---------------|---------------|
| 1Q | \$0.28 | \$0.27A |
| 2Q | \$0.28 | \$0.29A |
| 3Q | \$0.27 | \$0.33 |
| 4Q | \$0.29 | \$0.33 |
| | \$1.11 | \$1.22 |

Trading Data

52-WEEK PRICE RANGE: **\$15.84-\$12.77**

SHARES OUTSTANDING: **79.57(M)**

MARKET CAP: **\$1,241(M)**

AVG. DAILY TRADING VOLUME: **0.41(M)**

S&P 500: **2,093**

Valuation Data

BOOK VALUE: **\$11.44**

PRICE TO BOOK: **1.35x**

DIVIDEND: **\$0.44**

BBCN Bancorp (Nasdaq: BBCN)

2Q15 Earnings Report - Maintain BUY Rating

Highlights

- 2Q11 earnings increases to \$0.29/share from \$0.28/share
- Increased dividend 10%
- Diversifying revenues through new product offerings
- Positioning bank for earnings growth in 2015-2016
- Rated BUY & \$15.90/share price target

Investment Thesis

Many US banks suffered from loan portfolio credit deterioration created by the 2008-2009 recession. However, since then an improving economy has allowed many to repair loan portfolios and balance sheets. As a result many banks appear poised for an earnings recovery and potential share price appreciation. One such bank is BBCN Bancorp. This bank's unique customer-niche, recent acquisitions, and improving balance sheet augur well for earnings growth during the next two-three years. Under an improving profitability scenario, this stock could appreciate towards our \$15.90 target price. Additionally, BBCN pays a 2.8% dividend yield and offers the potential of future increases based on earnings growth.

Company Summary

Headquartered in Los Angeles CA, BBCN Bancorp Inc. (BBCN-\$14.43), formerly known as Nara Bancorp, Inc. originally began its operations in June 1989 operating under the name of "United Citizens National Bank". The name was changed to Nara Bank, National Association in 1994. In January 2005 the bank's name changed to Nara Bancorp after converting to a California state-chartered bank in conjunction with the holding company's reorganization transaction. Nara merged with Center Financial Corporation, on November 30, 2011, and changed its name to BBCN Bancorp Inc. The merger with Center Financial added 21 full-service branches (18 in CA) and loan production offices in Seattle WA and Denver CO.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.

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BBCN purchased Seattle-based Pacific International Bancorp (PIB) during 1Q13. PIB had total assets of \$185 million and four bank locations in the Seattle metro area. On a combined basis, BBCN now has 45 total operating branches with 27 in Southern CA (Los Angeles metro area), 3 in Northern CA (San Francisco metro area), 6 in Seattle WA, 2 in Chicago IL, and 7 in the New York/New Jersey metro area. A total of five loan production offices operate in Northern CA (1), Seattle WA (1), Denver CO (1), Dallas TX (1), and Atlanta GA (1). As of 12/31/14 BBCN had total assets of \$7.1 billion.

Business Overview/Operating Strategy

BBCN's primary focus is serving the Korean-American communities in Southern/Northern CA, Seattle, Chicago, and the New York City/New Jersey metropolitan areas. The bank offers deposit services, money markets, certificates of deposits, and a variety of loans to customers comprised mainly of small-to-mid size businesses and individuals in its service territories. The loan business consists of commercial business/real estate, trade finance, and SBAs. BBCN provides cash management services to its business customers. Its website offers internet banking services/applications in both Korean and American.

The recent acquisition of Pacific International Bank (PIB) increased BBCN's banking footprint by adding 4 branches in Seattle WA. Additionally, it added \$130 million in loans and \$143 million in deposits to BBCN's balance sheet. Management believes this makes BBCN the dominant Korean-American Bank in the Seattle metro area, which is a key area for the trans-Pacific trade lane between North America and eastern Asia. Additionally, the PIB acquisition is accretive to BBCN's earnings by \$0.02-\$0.04/share on an annual basis.

During 2Q13 BBCN merged with Foster Bank, headquartered in Chicago IL. Foster Bank is another financial institution serving the Korean-American community in Chicago and the Washington DC metropolitan areas. Foster Bank's total assets were \$412.6 million with \$326.9 million in total loans and \$357.4 million in total deposits. Upon completion of the deal, BBCN added 10 branch offices in Chicago and a full service branch in Annandale VA.

FUTURE GROWTH/ACQUISITIONS: BBCN has stated its intent to grow total assets from approximately \$7.1 billion to \$8 billion. Management believes this can be done through organic growth & acquiring other banks serving the Korean-American Community in regions complimenting, or expanding, BBCN's existing service territories.



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Recent Earnings

BBCN reported 2Q15 earnings of \$0.29/share vs. \$0.28/share during 2Q14. The improved results were the result of higher total interest income (+1%), net interest income after loan loss provisions (+3%), and total interest income (+1%). These were partly offset by increased interest expense (+8%) and total interest expense (+3%). When comparing the two quarters, net loans receivable rose to \$5.75 billion from \$5.28 billion with variable loans comprising 51% of new loan production and 49% from fixed rate. New loan originations were \$360 million with commercial real estate accounting for 78% and commercial loans 20% of the total. Deposits grew to \$5.76 billion from \$5.47 billion as the weighted average cost of deposits increased slightly to 0.55% from 0.54%. Both ROA and ROE decreased to 1.26% from 1.31%, and to 10.13% from 10.59%, respectively.

Net interest income (after loan loss provisions) rose 3% to \$66.39 million from \$64.49 million as total interest income increased 1%, to \$77.08 million from \$76.45 million, and more than offset an 8% rise in total interest expense, to \$9.68 million from \$8.96 million. The increase in total interest income came from higher interest on securities (\$4.22 million vs. \$4.09 million) and interest on fed funds sold/other investments (\$1.61 million vs. \$688,000), offsetting a decrease in interest/fees on loans (\$71.30 million vs. \$71.69 million).

Total interest expense increased 8% to \$9.68 million from \$8.96 million. The increase was due to higher interest paid on deposits (\$7.97 million vs. \$7.27 million) and interest on other borrowings (\$1.71 million vs. \$1.69 million).

Total non-interest income improved to 1% to \$10.57 million from \$10.49 million. The higher results were produced by net gains on sales of SBA loans (\$3.12 million vs. \$2.81 million), net gains on sales of other loans (\$45,000 vs. \$0), net gains on sales of OREO (\$73,000 vs. \$31,000) and other income/fees (\$4.30 million vs. \$4.29 million). These were partly offset by lower service fees on deposits (\$3.36 million vs. \$3.03 million).

Total non-interest expense rose 3% to \$38.70 million from \$37.74 million. The increase came from higher salaries/employees benefits (\$20.92 million vs. \$18.14 million), occupancy expense (\$4.81 million vs. \$4.72 million), furniture/equipment (\$2.32 million vs. \$2.01 million), and data processing/communications (\$2.46 million vs. \$2.30 million). These higher expenses were partly offset by lower advertising/marketing (\$1.48 million vs. \$1.51 million), professional fees (\$1.25 million vs. \$1.32 million), FDIC assessment (\$909,000 vs. \$1.08 million), credit related expenses (\$1.98 million vs. \$3.02 million) and other expenses (\$2.55 million vs. \$3.65 million).

The credit metrics for BBCN's loan portfolio produced mixed results. There were improvements in non-accrual loans, falling to \$39.7 million from \$42.7 million, provision for loan losses decreased to \$1.0 million from \$3.0 million, and net charge offs were lower at \$476,000 compared to \$1.83 million. Non-accrual loans/loans receivables decreased to 0.68% from 0.80%, allowance for loan losses/loans receivables decreased to 1.21% from 1.25%, and allowance for loan losses/non-performing loans declined to 71.98% from 77.26%. Non-performing assets/total assets rose to 1.60% from 1.56%, non-performing assets/total capital increased to 12.94% from 12.57%, and non-performing loans/loans receivable moved higher to 1.67% from 1.62%.



When comparing 2Q15 and 2Q14, the net interest margin decreased to 3.63% from 3.72%, before adjusting for the effect of acquisition accounting adjustments. When adjusting for these accounting measures, net interest margin fell to 3.91% from 4.20%. The declines were due to declines in the weighted average yield on loans (4.98% vs. 5.44%).

Our Thoughts

A good quarter of profits for BBCN as the bank reported 2Q15 earnings of \$0.29/share vs. \$0.28/share during 2Q14. The improved results were produced by higher total interest income (+1%), net interest income after loan loss provisions (+3%), and total interest income (+1%). These were partly offset by increased interest expense (+8%) and total interest expense (+3%). Going forward BBCN is expanding its product lines by offering credit cards, wealth management services, residential mortgages, and equipment leasing in order to diversify its revenue stream. These new product offerings, in addition to BBCN's recent acquisitions in major US metropolitan markets, offers potential revenue growth during the next years which could lead to higher earnings.

Management is comfortable with cash flow growth prospects given the recent 10% increase of its annual common stock dividend to \$0.44/share from \$0.40/share. Given the attractive dividend yield of 2.8%, and the prospect for earnings/dividend growth during the next two years, BBCN is recommended for growth/income investors. We rate this stock a BUY and our price target is \$15.90/share, equating to 13x our 2015 earnings estimate of \$1.22/share.



Risks

There is no guarantee BBCN will improve earnings/cash flow. An economic slowdown could adversely impact the company's earnings/loan portfolio. Rising interest rates/inflation, increase regulatory compliance expense, tax issues, or rising operating costs could negatively impact BBCN's earnings. BBCN's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines. Additionally, given its small-cap nature, there is limited liquidity in the trading of this stock. Given the relatively small amount of daily trading activity of daily trading in BBCN's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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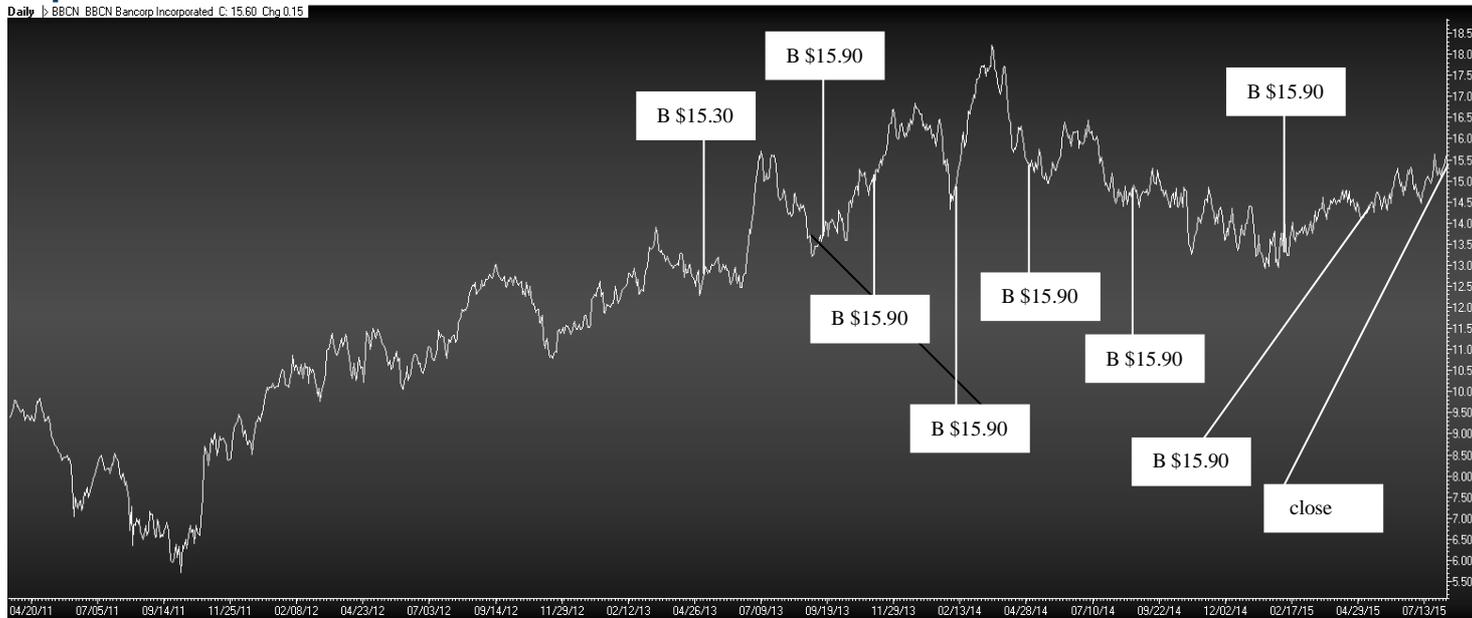
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BBCN Bancorp, Inc. & Subsidiaries
(in thousands, except per share amounts)

| | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 2014 | 1Q15 | 2Q15 | 3Q15e | 4Q15e | 2015e |
|--|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|
| Interest Income | \$73,354 | \$76,453 | \$77,084 | \$75,767 | \$302,657 | \$74,554 | \$77,075 | \$77,921 | \$78,231 | \$307,781 |
| Interest Expense | 8,338 | 8,963 | 9,177 | 9,533 | 36,060 | 9,431 | 9,684 | 8,328 | 8,428 | 35,871 |
| Net Interest Income before loan losses | 64,966 | 67,490 | 67,907 | 66,234 | 266,597 | 65,123 | 67,391 | 69,593 | 69,803 | 271,910 |
| Provision for loan losses | 3,026 | 2,996 | 4,256 | 2,360 | 12,638 | 1,500 | 1,000 | 2,348 | 2,462 | 7,310 |
| Net Interest Income net loan loss provisions | 61,940 | 64,494 | 63,651 | 63,874 | 253,959 | 63,623 | 66,391 | 67,345 | 67,341 | 264,700 |
| Non-Interest Income | 11,095 | 10,492 | 11,369 | 12,050 | 45,007 | 11,205 | 10,568 | 14,108 | 15,347 | 51,228 |
| Non-Interest Expense | 36,275 | 37,739 | 39,420 | 39,010 | 152,444 | 39,234 | 38,698 | 39,588 | 39,885 | 157,405 |
| Income before income taxes | 36,760 | 37,247 | 35,600 | 36,914 | 146,522 | 35,594 | 38,261 | 41,765 | 42,803 | 158,423 |
| Income taxes | 14,564 | 14,935 | 14,180 | 14,227 | 57,907 | 14,236 | 15,320 | 15,871 | 16,608 | 62,035 |
| Net Income | 22,196 | 22,312 | 21,420 | 22,687 | 88,615 | 21,358 | 22,941 | 25,894 | 26,195 | 96,388 |
| Dividends/disc. accretion on pref stock | | | | | | | | | | |
| Net Income available to common stock | \$22,196 | \$22,312 | \$21,420 | \$22,687 | \$88,615 | \$21,358 | \$22,941 | \$25,894 | \$26,195 | \$96,388 |
| Diluted Earnings Per Share | \$0.28 | \$0.28 | \$0.27 | \$0.29 | \$1.11 | \$0.27 | \$0.29 | \$0.33 | \$0.33 | \$1.22 |

Important Disclosures

Daily | BBON BBON Bancorp Incorporated | C: 15.60 Chg 0.15



5/09/13 \$12.80 Initiate BUY & \$15.30 px target

9/09/13 Raise price target to \$15.90

Ratings:

Buy: B

Hold: H

Sell: S

\$15.90 px. target equates to 13x our 2015 earnings estimate of \$1.22

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- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
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- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

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